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**1971
ANNUAL
REPORT**

File

DATALINE SYSTEMS LIMITED

DATALINE SYSTEMS LIMITED



DIRECTORS:

George S. Dembroski
Director, Dominion Securities Company

John F. Galipeau
Manager, National Computing Services

George T. Lake
*Director of the Computing Centre,
The University of Western Ontario*

Joseph C. Paradi
President, Dataline Systems Limited

John A. Wright
*Partner, Campbell, Godfrey & Lewtas,
Barristers & Solicitors*

OFFICERS:

Joseph C. Paradi, *President,
Treasurer*

R. William Hay
Vice-President, Systems and Operation

John A. Wright
Secretary

Alain C. B. Duncan
Controller

AUDITORS:

Clarkson, Gordon & Co.

REGISTRAR AND TRANSFER AGENT:

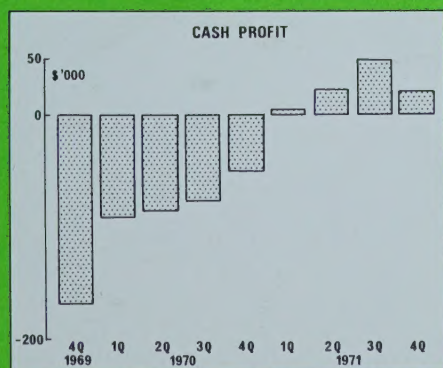
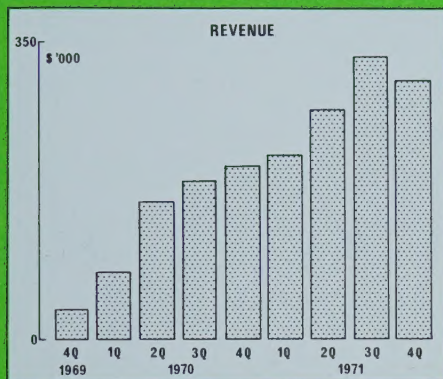
Crown Trust Company,
Toronto, Ottawa, Montreal



Toronto: 40 St. Clair Ave. West (416) 964-9515

Ottawa: 287 MacLaren St. (613) 232-9616

Montreal: 2175 Boul. De Maisonneuve, Suite 1008 (514) 871-1011



To the Shareholders :

We are pleased to submit your company's third annual report for the year ended December 31, 1971, its second full year of commercial operation. The year 1971 was once again a year of growth and accomplishment for your company which was highlighted by the following :

- Revenues increased to \$1,125,000, a 79% increase over 1970.
- During 1971 monthly operations achieved a positive cash position resulting in a *cash* profit for the year of over \$95,000.
- Net loss for the 1971 year was \$238,000 as opposed to \$558,000 for 1970 being a decrease of 57%.
- The second computer system was accepted for commercial operation on September 1, 1971.
- Cash expenses for the year, including interest payments of \$36,000 on the second computer system, increased only 7% while revenues, on the other hand, increased 79%.

The company's working capital position at December 31, 1971 shows a deficit of \$949,000 as a result of including the amount of \$1,114,000 payable in September 1972 for the second computer system. It is expected that arrangements will be made in the near future to fund out this amount on a long term basis. If the amount payable for the second system is excluded, working capital would amount to \$165,000, an increase of 123% over last year.

To indicate our growth in sales and cash profits you will find two bar charts in this report. A healthy and consistent growth is shown quarter by quarter since we commenced operations in 1969. Our 1971 fourth quarter results show a decline in cash profits. This decline was anticipated, however, and can be attributed mainly to the usual seasonal decline in sales and use caused by the year-end holiday season, the full effect of interest expense on the monies owing on our second computer system and the added expense of operating two computers from September 1, 1971. In spite of these increased costs, a *positive* cash flow was maintained in the fourth quarter.

Your company's outlook for the next year is excellent. With the installation and acceptance of our second computer system we estimate that no substantial new equipment will be required in fiscal 1972. Our sales and support staff and facilities have been considerably improved. A new sales office has been opened in Montreal to enable us to participate in this fast-growing market. With the opening of this new office Dataline now sells and services accounts from Toronto, Ottawa and Montreal, supported by an extensive communications network.

In spite of the intense competitive environment that your company operates in, we feel that Dataline has clearly established itself as a major force in the computer service industry and that its position will further improve in the coming year.

Our continued growth towards profitability will require the continued dedication and effort that has been displayed by our staff in the past. Without this hard work and dedication your company could not be successful and achieve its goals. I wish to thank all who have contributed to our success.

On behalf of the Board of Directors

J. C. Paradi/President

February 15, 1972.

DATALINE SYSTEMS LIMITED
(Incorporated under the laws of Ontario)



BALANCE SHEET

December 31, 1971

(with comparative figures at December 31, 1970)

Assets	1971	1970
Current:		
Cash	\$ 67,755	\$ 33,894
Guaranteed investment certificates, at cost plus accrued interest	85,146	250,750
Accounts receivable	173,623	147,384
Prepaid expenses	5,345	2,631
	<u>331,869</u>	<u>434,659</u>
Fixed, at cost (note 2):		
Computers and ancillary equipment (note 1)	2,873,958	1,721,768
Office furniture and fixtures	50,003	46,078
	<u>2,923,961</u>	<u>1,767,846</u>
Less accumulated depreciation	633,123	316,000
	<u>2,290,838</u>	<u>1,451,846</u>
Leasehold improvements, less amortization	123,795	125,791
	<u>2,414,633</u>	<u>1,577,637</u>
	<u>\$2,746,502</u>	<u>\$2,012,296</u>
Liabilities and Shareholders' Equity		
Current:		
Accounts payable and accrued charges	\$ 118,807	\$ 360,896
Due on purchase of second computer system (note 1)	1,113,730	
Deferred income	48,000	
	<u>1,280,537</u>	<u>360,896</u>
Deferred income — long-term	52,692	
Shareholders' equity:		
Capital stock (note 3) —		
Authorized:		
1,000,000 common shares without par value		
Issued:		
400,000 shares	2,722,480	2,722,480
Deficit	1,309,207	1,071,080
	<u>1,413,273</u>	<u>1,651,400</u>
	<u>\$2,746,502</u>	<u>\$2,012,296</u>

On behalf of the Board:

J. C. Paradi, Director

J. A. Wright, Director

(See accompanying notes)

AUDITORS' REPORT

To the Shareholders of
Dataline Systems Limited:

We have examined the balance sheet of Dataline Systems Limited as at December 31, 1971 and the statements of income and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1971 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
January 24, 1972.

Clarkson, Gordon & Co.
Chartered Accountants

STATEMENT OF INCOME AND DEFICIT

For the Year Ended December 31, 1971

(with comparative figures for 1970)

	<u>1971</u>	<u>1970</u>
Income :		
Computer time and related charges	<u>\$1,125,576</u>	<u>\$ 629,702</u>
Expenses :		
General, administrative and operating expenses	<u>1,035,545</u>	<u>971,034</u>
Depreciation and amortization	<u>333,847</u>	<u>253,698</u>
	<u>1,369,392</u>	<u>1,224,732</u>
Less interest earned	<u>5,689</u>	<u>37,233</u>
	<u>1,363,703</u>	<u>1,187,499</u>
Loss for the year (note 7)	<u>238,127</u>	<u>557,797</u>
Deficit, beginning of year	<u>1,071,080</u>	<u>513,283</u>
Deficit, end of year	<u><u>\$1,309,207</u></u>	<u><u>\$1,071,080</u></u>

(See accompanying notes)

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Year Ended December 31, 1971

(with comparative figures for 1970)

	<u>1971</u>	<u>1970</u>
Source of funds :		
Operations –		
Loss for the year	<u>\$ 238,127</u>	<u>\$ 557,797</u>
Less depreciation and amortization	<u>333,847</u>	<u>253,698</u>
	<u>95,720</u>	<u>(304,099)</u>
Deferred income – long-term	<u>52,692</u>	<u></u>
	<u>148,412</u>	<u>(304,099)</u>
Application of funds :		
Purchase of fixed assets (note 1)	<u>1,170,843</u>	<u>494,916</u>
Decrease in working capital during the year	<u><u>\$1,022,431</u></u>	<u><u>\$ 799,015</u></u>

(See accompanying notes)



NOTES TO FINANCIAL STATEMENTS

December 31, 1971

1. Purchase of second computer system

During 1971, the Company purchased for a total price of \$1,165,038 a second computer system, which system commenced commercial operations on September 1, 1971. The balance owing on this system at December 31, 1971 of \$1,113,730 (which includes an amount of U.S. \$886,600 translated at December 31, 1971 as Can. \$888,540) is payable in quarterly instalments of principal and interest aggregating U.S. \$67,500 with the balance due on August 31, 1972. It is the Company's current intention to refinance this purchase prior to August 31, 1972, by means of long-term borrowings or otherwise, but no such refinancing has been arranged as of the date of this report (January 24, 1972).

2. Depreciation

Depreciation has been provided on a straight-line basis at rates designed to amortize the cost of depreciable assets over their estimated useful lives, which, in the case of the computers and the major portion of their ancillary equipment, is estimated to be seven years.

3. Capital Stock

In 1969 an option was granted to a director and senior officer of the Company to purchase 10,000 common shares at a price of \$13.50 per share. The option is for a term of five years and may be exercised at any time or from time to time during the last three years of its term as to all or any of the optioned shares.

Under the terms of an incentive stock option plan, options were granted in 1970 to certain employees of the Company to purchase 4,500 common shares at a price of \$3.00 per share. Each option is for a term of two years and may be exercised at a rate of up to 50% of the total option during the second year of the plan, and up to 100% of the total option at the end of the second year of the plan. At December 31, 1971 none of the options granted by the Company have been exercised. A further 15,500 unissued common shares are reserved for possible future employee options.

4. Income taxes

The Company has losses of approximately \$1,300,000 available for carry-forward to reduce future years' income tax provisions.

5. Commitments

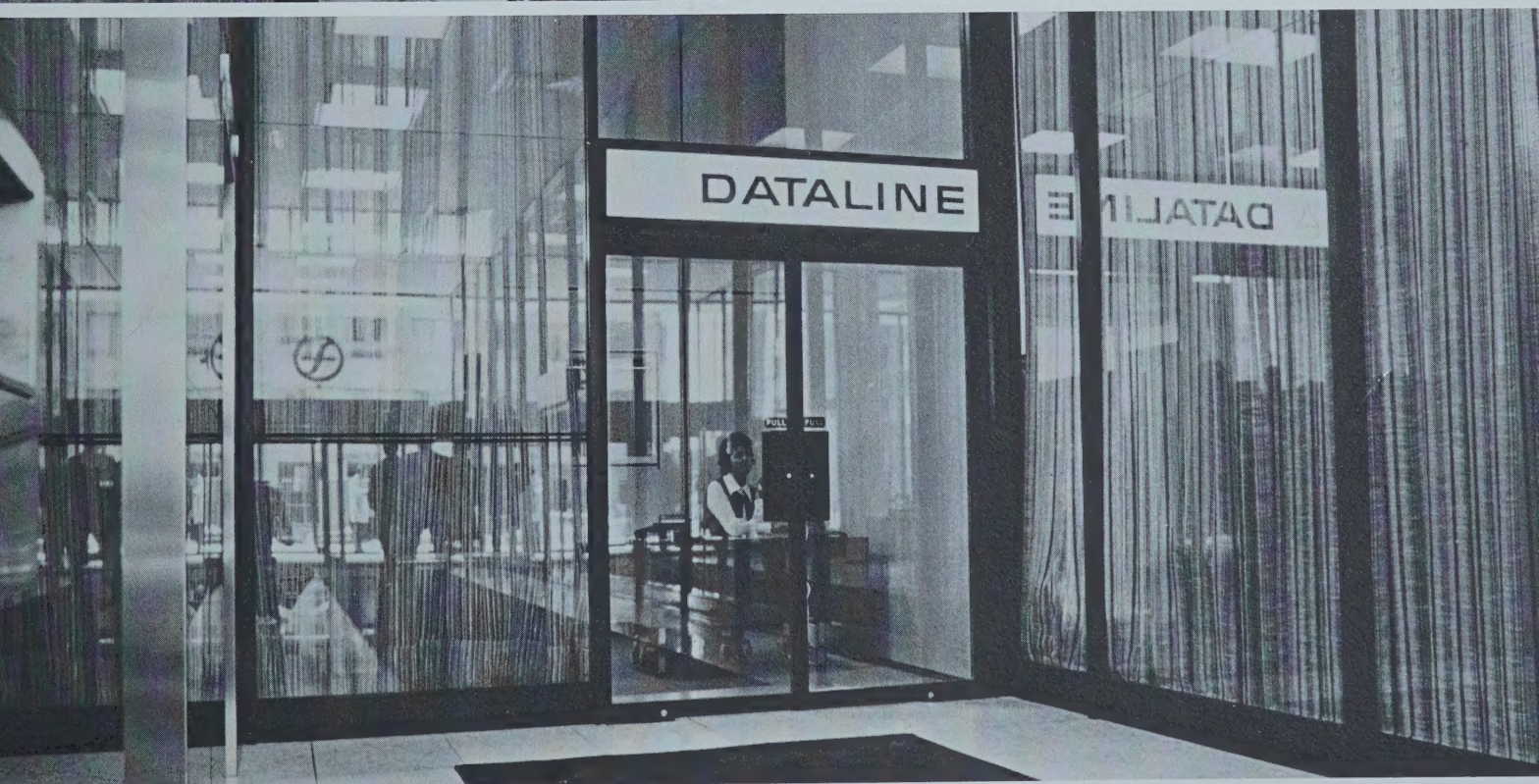
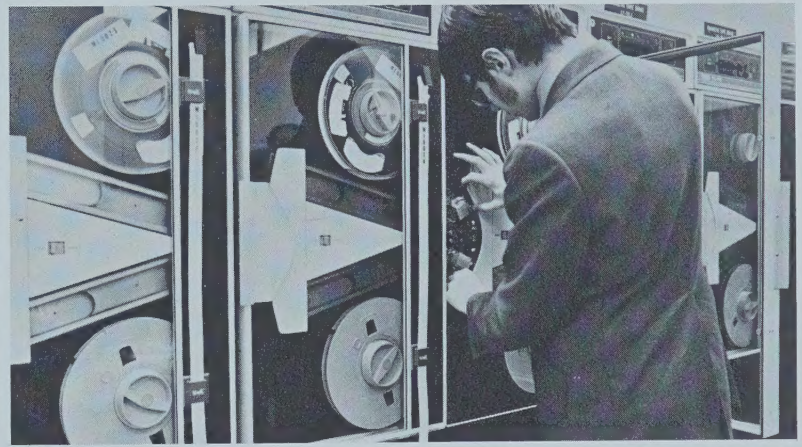
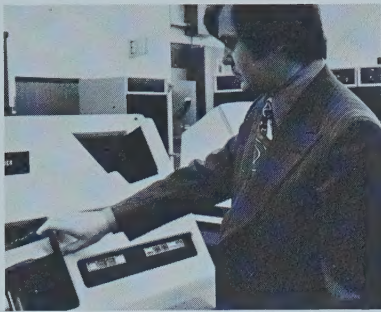
The Company has leased premises for up to seven years at an annual rental of \$64,400.

6. Remuneration of directors and senior officers

The aggregate remuneration of directors and senior officers, as such are defined under the requirements of The Business Corporations Act, 1970, was \$118,845 which amount includes remuneration paid or payable to five full-time employees.

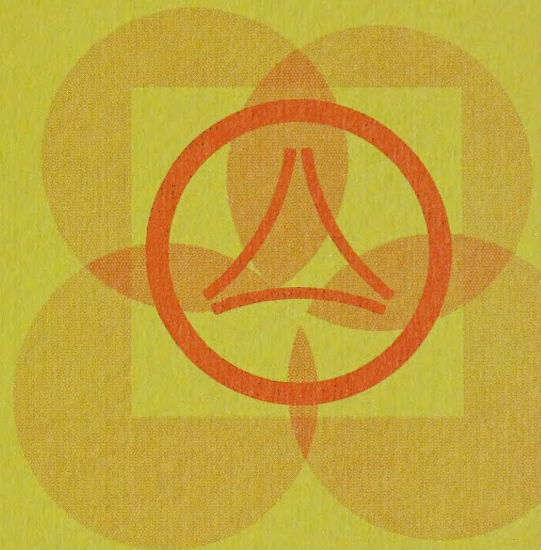
7. Loss per share

The loss per share was \$0.60 in 1971 and \$1.39 in 1970.





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DATALINE

Interim Report
for the six months ended
June 30, 1971

To the Shareholders of Dataline Systems Limited

I am pleased to report the results for the six months ended June 30, 1971.

Operations

A cash break-even point was reached during the period and resulted in a cash profit of \$31,087 as compared to a cash loss of \$178,000 for the six months ended June 30, 1970.

Revenue increased 106% to \$498,019, compared with \$241,862 for the six months ended June 30, 1970.

Loss for the period was \$107,795 as compared to \$286,994 for the six months ended June 30, 1970, a decrease of 62%.

As a result of improved operations during the period and the advance sale of a large block of computer time to a client, working capital increased \$103,986 to \$177,749 at June 30, 1971 from \$73,763 at December 31, 1970.

New Equipment

At the annual shareholders' meeting held on May 26, 1971, I reported on our acquisition of new computer equipment resulting in a doubling of our service capacity. This equipment has now been fully installed but has not as yet been accepted for service. It is expected that final testing and clearance will be completed by the end of August at which time it will be

immediately integrated into our telecommunications network serving our customer base.

Outlook

It is expected that revenues will continue to increase for the balance of the 1971 fiscal year. Although the addition of the second system will increase our cash expenses, the revenue potential from this system will be fully realized in the last quarter of this year and should make a significant contribution towards achieving an early profitable position by your Company.

This past year has seen a rationalization take place amongst companies competing in the Computer Services Industry. This has been brought on by intense competition and an extremely weak economy. However, Dataline has emerged from this environment as a strong, fast growing company and has become one of the leaders in the Time-Sharing segment of the Computer Services Industry. We fully expect to continue to increase our market penetration and to further strengthen our position in this, the fastest growing segment of the Canadian service industries.

J. C. Paradi,
President.

August 5, 1971

DATALINE SYSTEMS LIMITED

(Incorporated under the laws of Ontario)

Statement of Income and Expenses

For the six months ended June 30, 1971

(with comparative figures for the six months ended June 30, 1970)

(subject to audit and year-end adjustment)

	1971	1970
Income:		
Computer time and related charges	\$ 498,019	\$ 241,862
Expenses:		
General, administrative, and operating expenses	470,945	448,698
Depreciation and amortization	138,882	108,994
	609,827	557,692
Less: interest earned	4,013	28,836
	605,814	528,856
Loss for the six months	\$ 107,795	\$ 286,994

Source and Application of Funds

For the six months ended June 30, 1971

(with comparative figures for the six months ended June 30, 1970)

(subject to audit and year-end adjustment)

	1971	1970
Source of funds:		
Loss for the six months	(107,795)	(286,994)
Less: Depreciation and amortization	138,882	108,994
	31,087	(178,000)
Deferred computer revenue	86,000	
	117,087	(178,000)
Application of funds:		
Purchase of fixed assets	13,101	387,934
Increase (decrease) in working capital during the six months	\$ 103,986	\$(565,934)